Briefs

Livestock, Dairy, & Poultry

Lower Output to Revive Hog Prices In 1999

In 1998, hog prices tumbled to the lowest annual average since 1972, $31.67 per cwt—and the monthly average for December was $14 per cwt, the lowest December monthly average since 1963. Although feed costs were sharply below a year earlier, the extremely low prices slashed producers' returns.

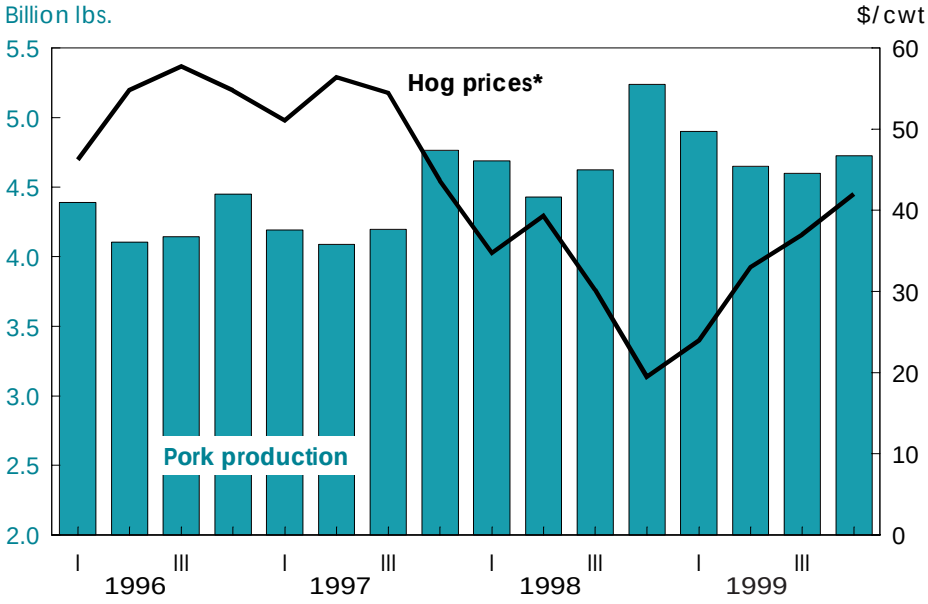
The steep decline began in late 1997. Earlier in the year, producers had been anticipating sharply increased export demand from Asia following the outbreak of foot-and-mouth disease in Taiwan in March 1997 (*AO* March 1998). At that point, hog supplies were relatively tight, well below estimated slaughter capacity, and feed costs were declining. In response, producers took steps to expand production, increasing their breeding herds and setting in motion a process that would reach fruition beginning in late 1997 to early 1998, at the end of the approximately 10-month biological cycle (from breeding until the pigs produced reach slaughter weight). By July, prices had reached a monthly high of $59 per cwt.

In late 1997, however, the effects of the deepening Asian financial crisis had begun to affect export demand. Although exports continued to increase in 1998—rising an estimated 20 percent for the year—they were concentrated in lower value cuts. Meanwhile, the expanded production began to increase the supply of hogs substantially—by September 1998, there were 63.5 million hogs on U.S. farms, the highest number since 1980. Productivity increases in pigs per litter and litters per sow, as well as in weight of slaughtered animals, added to the magnitude of expansion, as did recent increases in the number of hog operations with 2,000 or more head, which have seen the greatest productivity gains.

The unusually large increase in hog supplies strained the capacities of hog slaughter plants—weekly slaughter in the fourth quarter of 1998 frequently reached 2.2 million head, compared with a weekly level of only about 1.65 million head in mid-1997. As slaughter plants exceeded their capacity, packers turned to overtime labor to handle the huge supply, pushing up costs. Increased slaughter costs for packers, who were tied to contracts or purchasing arrangements for a large share of their supply, were quickly reflected in lower bid prices for hogs offered on the spot, or cash, market.

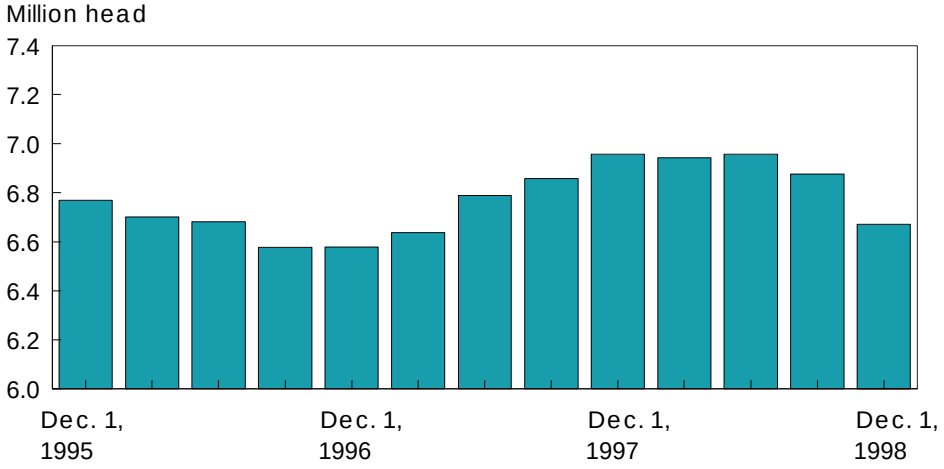
Adding further stress to an already strained system, increased shipments of Canadian hogs began to flow to U.S. packers just as the U.S. hog supply had outstripped plant capacity. The strong U.S. dollar, increased production and low prices in Canada, and labor problems at some Canadian packing plants led to an increase of nearly 1 million head in hog imports in 1998 compared with 1997.

Hog Prices to Rebound in 1999 . . .



1999 forecasts.
*Barrow and gilt prices, Iowa and southern Minnesota.

. . . Following Reductions in the Breeding Herd



Economic Research Service, USDA

Briefs

Responding to the run of low returns in 1998, U.S. producers reduced their breeding herds late in the year. USDA's December *Hogs and Pigs* report indicated a December 1 breeding inventory 4 percent below a year earlier, the first reduction in the quarterly year-over-year breeding inventory since March 1997. The reduction points to a smaller first-half 1999 pig crop and lower pork production in the second half of 1999.

Based on market hog inventory, pig crops, and farrowing intentions reported in the December *Hogs and Pigs* report, pork production in 1999 is expected to total about 18.9 billion pounds, down less than 1 percent from last year overall. Although production is expected to increase about 5 percent in first-half 1999, it will decline in the remainder of the year—fourth-quarter 1999 production is expected to be about 10 percent below a year earlier.

With receding slaughter levels, lower production, and continued increases in net exports, hog prices are expected to rebound from the extreme lows of $19.48 per cwt of late 1998, rising throughout 1999 from the mid-$20's to near $40 per cwt, and averaging in the mid-$30's per cwt for the year. Although poultry production is expected to rise 5-6 percent, beef production is expected to drop 2-3 percent in second-half 1999, reducing competition for pork. With a continuing decline in feed costs expected, producers' returns may rise above breakeven late in the year. The severe financial distress hog producers experienced in 1998, however, may slow their response to favorable returns—it may take longer than the typical 3-6 months of positive returns before producers resume herd expansion.

In contrast to the historical drop of 38 percent for hog prices on the market in 1998, retail pork prices declined less than 5 percent. Farmers' share of retail prices fell to 22 percent for the year, and was only 10 percent in December as the farm-to-retail spread widened to more than $2 a pound. A low farm share of retail value with a lengthy adjustment period is typical when livestock prices drop sharply, although the drop to 10 percent that occurred in December was unusually steep. Retail prices in 1999 are expected to continue a downward adjustment to the lower hog prices, declining another 2-4 percent, with the sharper drops expected early in the year. As hog prices rise in 1999, retail declines will taper off with a 1-percent decline in fourth-quarter 1999.

Retailers contend that the retail prices used in the farm-to-retail price spreads, which include data from the Consumer Price Index, do not accurately reflect large volumes of pork moving at sale prices. In their view, if these lower priced sales were included in the calculation, the spread would not appear as wide. At the same time, retail pricing responds to consumer demand for pork, not to the supply of hogs. Consumer incomes are strong, and demand for pork has held steady without the need for significant price reductions. As preferences for pork increase in response to higher quality, improved consistency, and larger cut size, pork supplies have not outstripped rising retail demand at current prices.

Continuing moderate domestic pork prices will help support U.S. exports in 1999. U.S. pork exports are expected to increase 10 percent in 1999, compared with a likely 20-percent rise in 1998. The 1998 increase was the result of lower U.S. pork prices and a volume increase of lower valued products; in 1999, as supplies stabilize, increased exports will bid up prices. A double-digit increase, however, will be contingent on successful delivery of food aid to Russia. Japan, Russia, Mexico, and Canada have accounted for three-fourths of all U.S. pork exports in 1998, and Japan, Mexico, and Canada will likely account for most of U.S. pork exports in 1999.

Japan's imports in 1999 are expected to increase moderately in line with a stronger yen. While the double-digit economic growth rates seen earlier in the decade are not likely in 1999, the U.S. share of Japanese pork imports is expected to remain near 30 percent. The U.S. provides more than 70 percent of the fresh pork and more than 15 percent of frozen pork imported by Japan. Denmark is the major U.S. competitor for frozen pork imports to Japan, supplying more than 33 percent of the frozen market. After the outbreak of foot-and-mouth disease in Taiwan in 1997, Japan compensated for the loss of imports from Taiwan by diversifying its imports of fresh pork, adding cuts from Canada and South Korea. Canada is likely to provide the U.S. strong long-term competition for Japan's fresh pork market.

The moderation of economic growth in Mexico, together with continued recovery of its pork production industry, could slow Mexican demand for U.S. pork products in 1999. While export growth to Mexico may not meet the recent 2-year average growth rate of 60 percent, U.S. shipments to Mexico in 1999 are likely to continue increasing at a double-digit rate.

Exports to Canada in 1999 are likely to continue at the high levels reached following the dramatic increases of 1996-97. Strong Canadian demand for U.S. products reflects, in part, Canadian consumer demand for cuts that Canadian processors have been exporting in order to develop markets in Asia. As restructuring and expansion of the Canadian pork industry continues, demand for U.S. products could trend downward. On the import side, shipments of Canadian hogs could moderate in 1999, as slaughter capacity increases in Manitoba and as Ontario hogs increasingly move to plants in Quebec under buying contracts. **AO**

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Upcoming Reports—USDA's Economic Research Service

The following reports will be issued electronically on dates and at times (ET) indicated.

March

5	*Aquaculture (3 p.m.)*
11	*World Agriculture Supply and Demand Estimates (8:30 a.m.)*
12	*Cotton and Wool Outlook (4 p.m.)***
	*Oil Crops Outlook (4 p.m.)***
	*Rice Outlook (4 p.m.)***
15	*Feed Outlook (9:00 a.m.)***
19	*Agricultural Outlook**
22	*U.S. Agricultural Trade Update (3 p.m.)*
23	*Livestock, Dairy, and Poultry (4 p.m.)***
25	*Fruit and Tree Nuts (3 p.m.)**
26	*Wheat Yearbook**

*Release of summary, 3 p.m.
**Available electronically only

Briefs

Trade Policy

U.S. Export Programs Target Weak Global Demand

The U.S. government operates several types of programs to encourage U.S. agricultural exports and to feed needy people in foreign countries. Export credit guarantees, export price subsidies, and market promotion programs have facilitated commercial exports during this decade. U.S. food assistance programs donate agricultural products directly to individual countries with food aid needs or through the United Nations (UN) World Food Program, and permit long-term credit sales of agricultural commodities to countries on a government-to-government basis and to nongovernmental organizations in recipient countries.

U.S. agricultural exports rose steadily through the 1990's, reaching $59.9 billion in fiscal year 1996. But as financial problems in Asian countries and in the former Soviet republics weakened world demand and as global commodity supplies increased in response to high prices in the mid-1990's, U.S. exports slipped to $53.7 billion in fiscal 1998. Weak global demand is expected to continue in the short term and, coupled with large world commodity supplies and a strong U.S. dollar, is expected to lower U.S. agricultural exports to a forecast $49 billion in fiscal 1999.

Export credit guarantees facilitate exports to buyers in countries where credit is necessary to maintain or increase U.S. sales, but where financing may not be available without U.S. government guarantees. The *Export Credit Guarantee Program* (GSM-102), the largest of the group, guarantees loans of more than 6 months to 3 years, and the much smaller *Intermediate Export Credit Guarantee Program* (GSM-103) guarantees loans of more than 3 years up to 7 years. Smaller credit guarantee programs—the *Supplier Credit Guarantee* and *Facilities Guarantee Programs*—were implemented only recently. USDA's Commodity Credit Corporation (CCC) approvals of export credit guarantees slid to $2.9 billion in 1997, down from a peak of $5.7 billion in fiscal year 1992, but rose again in 1998 to $4 billion as importers, particularly in Asia, sought government-guaranteed commercial loans to purchase U.S. products. Export credit guarantee shipments accounted for 6 percent of U.S. agricultural exports in 1998, down from 13 percent in 1992 when the export level was much lower.

The chief importers using U.S. export credit guarantee programs in 1998 were the Republic of South Korea, Mexico and, to a lesser extent, Turkey, Pakistan and Indonesia. Mexico has been one of the largest users of the credit guarantee programs throughout the past decade, but South Korea had reduced its program imports in the 1990's, and other major importers of the early 1990's such as Algeria, Iraq and the former Soviet Union sharply reduced their program purchases or no longer participate in the U.S. export credit guarantee programs.

USDA's ***export market promotion programs***—the *Market Access Program (MAP)* and the *Foreign Market Development (Cooperator) Program*—currently are funded at about $120 million, a drop of over $100 million from their peak 1993 program level. Both programs, partnerships between USDA and private sector organizations, help develop markets for U.S. agricultural exports. Historically, 80 percent of MAP funding has helped build global markets for high-value products.

USDA runs two ***export subsidy programs***—the *Export Enhancement Program (EEP)* and the *Dairy Export Incentive Program (DEIP)*. The EEP, initiated in May 1985, awards cash payments on a bid basis to exporters, enabling them to sell certain commodities to specified countries at competitive prices. From 1986 through June of 1995, the EEP was associated with over half of U.S. wheat exports and, to a lesser extent, barley, wheat flour, and other commodity exports. Since July 1995, EEP has assisted only a few sales of barley and frozen poultry. The DEIP, the most active export subsidy program today, awarded $110 million in export bonuses (direct export subsidies) to U.S. exporters in 1998 for sales of selected dairy products—butter, butter oil, cheese, and milk powder.

The Uruguay Round Agreement on Agriculture (URAA), completed in 1994, imposed meaningful disciplines on agricultural export subsidies for the first time. In the 1996 Farm Act, Congress further reduced funding for the EEP, but supported funding for the DEIP at levels allowed under the URAA for U.S. dairy export subsidies. Reduced U.S. export subsidy spending from 1996 through 1999 also reflects minimal program activity following high world grain prices in 1996 and 1997.

The U.S. provides ***food assistance*** to needy populations overseas through *Public Law 480 (Food for Peace) Titles I, II and III* and through *section 416(b) of the Agricultural Act of 1949, as amended*, and the *Food for Progress Program*. Title I of P.L. 480 finances sales of commodities under long-term credit arrangements (up to 30 years) to developing countries with insufficient foreign exchange. Donations for emergency food relief and nonemergency humanitarian assistance are provided under Title II to international organizations such as the UN's World Food Program and to recipient governments. Title III grants food assistance to support development programs in least developed countries. Section 416(b) provides for donations of CCC-owned surplus commodities to developing countries, and Food for Progress authorizes the donation or sale of food aid commodities to assist developing countries that are implementing market-oriented policy reform.

Funding for the chief U.S. food assistance programs under Public Law 480 declined in the mid-1990's due to budget considerations, but allocations turned up slightly in 1998 to $1.14 billion. The President announced a separate food aid initiative for wheat in July 1998 as global food aid needs rose and supplies of U.S. wheat and other commodities mounted. Under this initiative, 5 million metric tons of wheat and wheat products will be made available for donation overseas. The wheat and

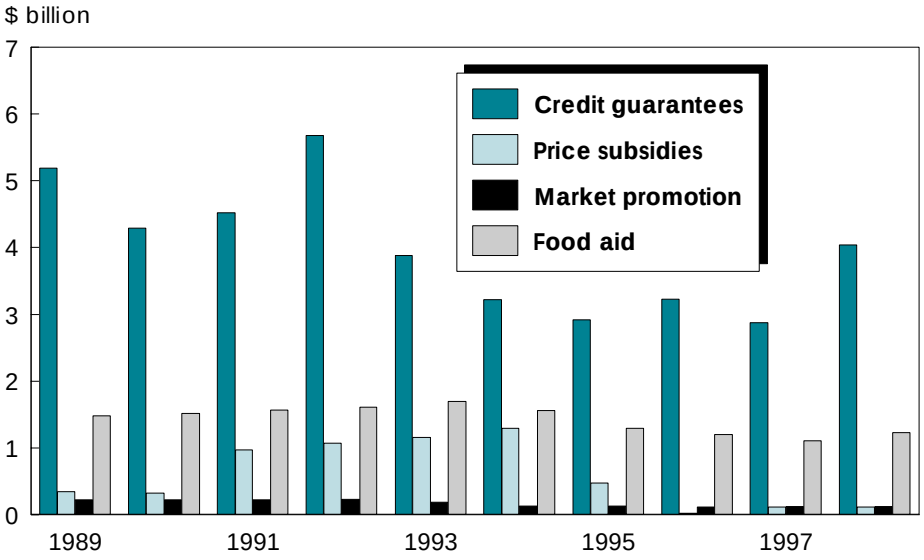
wheat products are being purchased by the CCC under its surplus removal authority and donated under section 416(b).

As of January 26, 1999, 4.8 million tons of wheat had been allocated under section 416(b) authority. Of the total, 3.33 million tons of wheat and wheat products will be made available to 19 countries in government-to-government donations. One million tons of wheat and wheat products will go to the UN's World Food Program, and 426,741 tons have been made available to private voluntary organizations for projects in the New Independent States (NIS) and in Bosnia, Central American and Caribbean countries, Indonesia, and Kenya.

About 1.5 million metric tons of wheat and wheat products from the President's July 1998 initiative are being provided to Russia as part of a larger food assistance package. The food assistance package for the Russian Federation, announced on November 6, 1998, includes assistance that will be provided through Title I concessional financing and Food for Progress grant agreements. Commodity allocations for Russia under P.L. 480 Title I long-term credit and Food for Progress include: beef, corn, lentils, nonfat dry milk, planting seeds, pork, poultry, rice, salmon, soybeans, soybean meal, vegetable oil, and wheat. In addition, nonfat dry milk will be donated from CCC inventories under section 416(b), and wheat and wheat flour will be donated under the President's Food Aid Initiative.

Other agricultural exporters also donated food to Russia, Indonesia, and other needy countries in 1998 and 1999. The European Union (EU) and Russia signed an agreement for a $500-million food aid package for Russia on January 20, 1999.

Use of Ag Export Credit Guarantees Turns Up After Declining in Mid-1990's



Credit guarantees—GSM-102 and GSM-103 approvals; price subsidy awards—EEP/DEIP/COAP/SOAP; market promotion—Cooperator program expenditures and TEA/MPP/MAP allocations; food aid expenditures—P.L. 480 Titles I-III, excluding Section 416(b) shipments.

Economic Research Service, USDA

In October 1998, Canada announced it would provide $1.8 million in humanitarian assistance to Russia.

The UN Food and Agriculture Organization (FAO) estimates that food aid shipments of grain from all donors will increase sharply in the 1998/99 international grain marketing year (July-June). FAO projects that grain aid shipments to Asian countries will nearly double from 1997/98 due to increased grain shipments to Indonesia, and estimates grain aid shipments of 1.4 million tons to Russia and other NIS, a sevenfold increase from 1997/98. Grain shipments to needy populations in Africa will remain the same as in 1997/98, while shipments to Latin American and Caribbean countries will double to an estimated 600,000 tons following Hurricane Mitch.

Funding for U.S. international food assistance and export credit guarantee programs will continue at higher levels in 1999 to address ongoing financial problems in Asia and Russia, but U.S. funding for food assistance likely will drop back in 2000, and U.S. credit guarantee approvals are projected down slightly in 2000. Government funding for cost-share programs to promote U.S. products abroad is projected to be stable, while funding for export subsidy programs will likely continue below URAA export subsidy commitments.

The U.S. and other exporting nations will likely review export subsidies, food assistance, and export credit guarantees as they prepare for the next round of trade talks for the World Trade Organization. For example, the Cairns Group (Argentina, Australia, and others) and the U.S. advocate elimination of direct export subsidies, which currently are used primarily by the EU. **AO**

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For More on Wheat Export Programs

With rising U.S. food aid shipments in 1999, total U.S. export program shipments could amount to more than 40 percent of U.S. wheat exports in fiscal 1999. Although export programs facilitated over 70 percent of U.S. wheat exports from 1986 through 1995, the share had dropped to 25 percent in the last 3 years.

See the special article in the next ***Wheat Situation and Outlook Yearbook.*** Summary will be released March 26, 1999. Summary and full report will be available at http://usda.mannlib.cornell.edu/reports/erssor/field/whs-bby/